



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 10/25/2002

GAIN Report #CO2020

Colombia

Dairy and Products

Annual

2002

Approved by:

David J. Mergen

U.S. Embassy

Prepared by:

Leonardo Pinzon

Report Highlights:

Colombia's milk powder production in 2002 is estimated at 70,000 tons and will increase seven percent in 2003. Total powdered milk consumption is expected to rise six percent in 2002 to 68,000 tons. Imports for 2003 are forecast at 19,000 tons, equal to 2002 level. Venezuela has had a ban on imports of Colombian milk powder since August 12, 2002.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Bogota [CO1], CO

Table of Contents

Executive Summary	1
Production	2
1. General	2
2. Production Factors	2
Consumption	4
1. General	4
2. Prices	4
3. Production Policy	5
Trade	5
1. Imports	5
2. Exports	6
Stocks	6
Policy	6
1. Import Policy	6
2. Export Policy	7
Marketing	7
1. Market Development Opportunities	7
2. Import Requirements	8
3. Import Registration and Product Labeling	8
Tables	10
Dairy, Dry Whole Milk Powder PSD, 2001-2003	10
Dairy, Milk, Nonfat Dry PSD, 2001-2003	11
Powdered Milk Exports, 2001	12
Powdered Milk Imports, 2001	13
Powdered Milk Retail Prices 2001-2002	14

Executive Summary

Colombia's powdered milk production (both whole and non-fat) in 2002 is estimated at 70,000 tons. Seven-percent growth is forecast for the year 2003. Added plant capacity, growing exports, government supports, and crop substitution have been factors explaining this upward trend. Per capita milk consumption (fluid and its products) is estimated to average 135 liters in 2001, a decline of one percent from 2000, and it is expected to decline another one percent in 2002 due to low consumer incomes and high prices. Total powdered milk consumption is expected, however, to rise six percent in 2002 to 68,000 tons, well above the 1.7 percent increase

in population. As in 2000, Venezuela took almost all of the Colombian powdered milk exports in 2001, as the quantity imported increased from 13,341 tons to 17,825 tons. Venezuela has had a ban on imports of Colombian milk powder since August 12, 2002.

Production

1. General

Colombia's powdered milk production (both whole and non-fat) in 2002 is estimated at 70,000 tons, four percent above 2001. The 2003 forecast is for 75,000 tons. The industry continues adding plant capacity in an attempt to improve the efficiency of handling the oversupply of fluid milk and to attend the rising demand of external markets.

The growth in fluid milk production during this year is the result of several factors: first, despite announcements of the arrival of the "Nino phenomenon", which would bring drought, wet weather occurred and better than average pastures and fluid milk production were the result. Second, more land is being added to cattle production, mainly double purpose cattle, because of poor income for other crops, coffee for instance. Third, security problems make it easier for ranchers to control cattle as opposed to crops from the larger cities. To these factors must be added the declaration of the OIE (Organisation International of Epizooties) that the northeast part of Colombia, which hold around 43 percent of the cattle population in Colombia, is free of mouth and foot disease with vaccination. The disease free status has stimulated cattle sector growth in the zone, which is the principal double purpose cattle area of the country.

Another important factor that has contributed to rising milk production is the development of cooperatives among smaller dairy producers. Those cooperatives are extremely aggressive in supplying neighboring countries' markets, such as Venezuela and Ecuador, and the local market as well. The Ministry of Agriculture, through FINAGRO, the agricultural financing corporation, is supporting the new cooperatives by giving an incentive on the credit obtained, whereby only 60 percent of the principal borrowed must be repaid. Cooperatives are applying these resources to develop an aggressive program for expanding the use of cold storage tanks for milk at the farm level. A program for reaching 4,000 tanks in four years is in place. Also, resources are being applied to purchase modern equipment for streamlining the whole processing chain. These improvements in the dairy sector are made under the dairy chain agreement where milk producers, dairy manufacturers, and the government jointly assume responsibility for gains in the efficiency and productivity of the dairy sector. Cooperatives have become an organizational solution for small farmers to improve production and become part of a better organized commercialization chain.

Dual-purpose cattle, which are commonly used in these types of operations, offer the option of selling either milk or beef, depending on market conditions. This movement toward dual-purpose cattle herds and cooperatives, has intensified recently. The dual-purpose nature of many cattle make it possible that recent figures on dairy production could be underestimated.

2. Production Factors

Generally, fluid milk production peaks during June-July and again in December-January, when pastures enjoy optimal conditions due to high rainfall levels. During these periods of oversupply, surpluses are converted into powdered milk. April and October usually are the wettest months in Colombia and, therefore, pasture conditions are ideal in May and November. In contrast, a milk deficit situation normally occurs in February through April and again in August through October, which correspond to the dry seasons. This cycle have been altered by the weather phenomenon called 'niña' with more rainfall and 'niño' during the driest periods. Under those two weather conditions, imports decline or grow respectively. This year the expected "niño phenomenon" during the first semester did not occur but it is likely to happen at the end of the year and remain through the beginning of the 2003.

As a instrument for improving competitiveness, reducing prices volatility and to steady domestic supply through the whole sector chain, the Colombian Government has been promoting sectoral agreements. The dairy chain agreement establishes a buying price system to encourage milk producers to offer more stable milk quantities throughout the year. Manufacturers set a price for quota purchase levels that is the daily average price for the six lowest sales months during the previous year. The over-quota milk production is purchased at a lower price than the quota price. There is a "Minimum Reference Quota Price" (MRQP) for buying milk within quota and a "Minimum Reference Surplus Price" (MRSP) for buying milk over the quota. The MRQP and MRSP are calculated, based on the ceiling price of Andean Community price band system for the "quota price" and on New Zealand fresh milk producer price for the "surplus price". In addition to these Minimum Prices, dairy farmers may obtain a premium price based on milk quality, which is negotiated between individual milk producers and manufacturers. Farmers and industry have recognized, however, that the price scheme has not worked out properly and it is not really applied so far. Instead individual agreements on prices have been set during this year.

Approximately 43 percent of the Colombian cattle herd (beef and dairy) is concentrated in the Atlantic coastal region. Most lactating cows in this area serve as dual-purpose (both milk and beef production) animals. An estimated 40 percent of Colombia's milk comes from this Atlantic coastal region. As much as 30 percent of Colombia's milk production is derived from non-dairy breeds. Other important dairy zones are located near large urban areas, such as Bogotá, Medellín, and Cali, where dairy breeds are used.

Powdered milk production capacity of the Colombian industry is growing. Currently it is estimated at 100,000 tons per year representing 19 percent of annual production of fluid milk. However, the actual capacity utilized reached 70 percent using 12 percent of the actual fluid milk production. There are 16 plants in Colombia producing powdered milk including a new high technology plant that which entered into operation last year. Newly added plant capacity for powdering milk may allow for a further increase in the total production of dry milk.

In 2002, the dryer weather expected because of "the niño Phenomenon" did not come, so fluid production was better than projected. Dryer whether is forecast, which could reduce fluid milk production.

Consumption

1. General

There is lack of accurate information on milk consumption and no consensus between the Government, producers and industry. Per capita milk consumption (fluid and its products) is calculated at 135 liters in 2001, a decline of one percent from a year earlier, compared to a three percent average growth during the 1987-1999 period. Total powdered milk consumption is expected to rise six percent in 2002 to 68,000 tons, four percent more than the population growth. Powdered milk consumption is projected to continue growing at an average annual rate of six percent over the next two years.

Powdered milk is used mainly by processing facilities for reconstitution into fluid milk and other dairy products. About 5 percent of powdered milk supplies are consumed by households as a substitute for purchasing fluid milk. Demand for milk powder usually increases markedly when the Government increases its regulatory checks on milk quality and finds more substandard fluid milk. During these times, consumers become suspicious of fluid milk quality and turn to milk powder. Flavored powder milk and milk flavored derivatives have been developed to expand the market, but are not widely consumed.

The Government of Colombia sponsors a supplementary lunch program, including milk, for 500,000 low-income elementary students. It is expected to be expanded to reach 4.5 million students in the near future. This program provides considerable support for milk producers. In part because of this program, during the December-January school vacation, per capita milk consumption decreases as consumers in resort areas drink less milk. Producers are developing long term campaigns to gain awareness of the nutritional value of drinking milk and the relative price lower to sodas and juices.

Most Colombian consumers do not view low-fat milk favorably, since there is a general perception that full-fat (3.2 percent fat) milk is more nutritious. In recent years, however, demand for low-fat milk has improved somewhat, as some consumers (mostly higher-income) have expressed greater concern about reducing fat intake. No more than 10 percent of all powdered milk output in Colombia is non-fat.

Ultra-high temperature (UHT) milk first entered the Colombian market in 1993, when it was imported from Ecuador. The following year Colombia initiated production and use has increased from 0.7 percent of fluid milk consumption in 1996 to around 3 percent in 2000 and a further 5 percent in 2001. A new plant for UTH milk production added about 400,000 liters a day processing capacity in the late 2001. At present, UHT milk is sold as whole, skim, and delactosed milk.

2. Prices

The Colombian market price for milk does not distinguish between whole and non-fat dry milk powder. The average retail price of powdered milk in September 2002 was 9,980 pesos per kilo (\$1.76/lb), down just one percent from a year ago. This price fall came at a time when the general rate of inflation was six percent. This price reduction reflects the high inventory level observed at the beginning of the year and strong competition among the supermarket chains.

3. Production Policy

Colombian regulations require that all milk sold at retail be 70 percent milk which has not been reconstituted, or a maximum of 30 percent derived from powdered milk. In practice, enforcement of this regulation is not necessary, since Colombian consumers usually express a dislike for the taste of milk when the product contains more than 30 percent reconstituted milk. This regulation is currently being reviewed by the Ministry of Health taking into consideration the comments by the industry proposing to exclude reconstituted milk for human consumption. The purpose of this modification is to prevent powder milk illegally entering in the country to be converted into fluid and sold as pasteurized milk.

Trade

1. Imports

In 2001, Colombian powdered milk imports increased to 19,871 tons from 14,048 tons in 2000. This increment, 41 percent, reflects the expectations created about the presence of the "niño phenomenon" and the subsequent reduction in fluid milk production which did not occur. Additionally the low powdered milk price offered by Argentina due to the strong currency devaluation and a lower duty of 20 percent increased imports of milk powder.

The biggest fluid milk producer pushed for a ban on imports because an unusually high level of powder milk inventories. In February, this pressure made the GOC take action on the import side by changing the international market price from \$2,130 to \$1,798 per ton. This increased the variable duty from 22 percent to 40 percent. This duty increase discouraged imports, which fell from 6,000 tons in January to 1,500 tons in February and 640 tons in June. Cumulative imports during the first semester of 2002 were 10,000 tons of imports, which are expected to reach 19,000 tons at the end of the year, down 1,000 tons from a year earlier.

Imports for year 2003 are forecast at 19,000 tons, equal to 2002 level, based on the likely appearance of the niño phenomenon along with a strong Venezuelan market for Colombian milk powder.

The United States supplied one percent of the imported milk powder in 2001, down six percent from 2000 when it supplied 1,144 tons. The United States was the ninth ranked supplier in 2001, with Uruguay, Argentina, and New Zealand being the largest suppliers. As a member of the Andean Community, Colombia allows duty-free milk imports from Ecuador, Peru, Bolivia, and Venezuela.

2. Exports

On August 12, 2002 Venezuela banned powder milk imports from Colombia. Larger than normal amounts of powder milk exported to Venezuela during the first half of the year along with higher local prices because of Venezuelan currency devaluation, led to the Venezuela Government creating the barrier. Conversations are taking place and the GOV is expected to lift the

restriction soon.

Colombia and its closest neighbors, Venezuela and Ecuador, exchange powdered milk depending on the price differential. Consequently, Colombia both imports from and exports milk to Ecuador and Venezuela. As in 2000, Venezuela not only took almost all of the Colombian powdered milk exports in 2001, but the quantity imported was 35 percent higher than a year earlier. The same pattern appeared in the cheese trade, since producers have targeted Venezuela as their most important market and have also started to look at Peru as a potential buyer. In 2001, exports to Venezuela reached 17,825 tons, 35 percent higher than 2000.

3. Dairy Export Incentive Program, DEIP

In 1992 and 1993, Colombia imported 4,456 tons of powdered milk under the Dairy Export Incentive Program (DEIP). Since then, however, Colombian importers have not been able to use this program, because of the Andean Community's price band system (see the Marketing-Import Requirements section). Under this system, import charges are assessed to reflect DEIP bonuses, removing the attractiveness of the program.

Stocks

Because of increased imports, stocks at the end of 2001 were 12,000 tons and a further increase to 14,000 is expected in 2002. Since a new milk powder plant is in operation, stocks are expected to reach to 16,000 tons at the end of 2003.

Policy

1. Import Policy

In 1991, the Colombian government initiated a market liberalization program called "apertura" (economic opening), which reduced import duties and expedited the import licensing process for most imports. The GOC's intent was to open domestic industries, including agriculture, to foreign competition. This trade policy is designed to stimulate efficiency within the domestic industry at the same time that it dampens inflationary pressures. However, lobbying for the protection of domestic agricultural products remains strong, and, in the case of milk, import restrictions continue.

Colombia allows unrestricted imports of milk since 1999, as long as the sanitary requirements have been fulfilled. Import approval from the Ministry of Agricultural is no longer required.

The main restriction third countries face to export powder milk to Colombia is the application of the variable duty under the Andean Community Price Band System (ACPBS) (see import requirements).

2. Export Policy

The GOC offers a subsidy on non-traditional exports (i.e., exports other than coffee and

petroleum). These subsidies take the form of Income Tax Refund Certificates (CERTs). The export subsidy is equal to a percentage of the FOB value of the shipment, with specified product categories receiving different CERT percentages. These certificates are used to pay income taxes a year or more after their issuance or can be sold at an earlier date at a discount. Under Apertura, the GOC has been reducing its export subsidy levels with the goal of eventual elimination. The CERT for milk and dairy products is now set at 2.5 percent, down 2.0 points from 4.5 percent two years ago. Exports to the Andean Community countries do not enjoy this subsidy.

The GOC authorized an increase in the producer financed export subsidy for milk powder to around \$500 per ton in order to help the industry in the face of the high devaluation in Venezuela. Lower international prices a stronger competition due the devaluation in Argentina became a serious threat to Colombia's exports to Venezuela, which is its main and natural market. The source of funds for the export payments comes from the Stabilization Fund of Milk and Meat managed by the National Cattle Growers Federation FEDEGAN.

Marketing

1. Market Development Opportunities

The price of domestic milk in relation to the cost of imported powdered milk is the most important factor determining milk import levels. Traditionally, powdered milk has been imported in the months of February through April and August through October, when domestic milk production falls to its lowest levels during the year. About 85 percent of all powdered milk imports are used by dairies for reconstitution into fluid milk. Close to 10 percent is used for the production of other dairy products, such as cheese and yogurt, and the remainder is marketed to households.

Recently, strong marketing efforts to gain external markets have become a trigger for imports. Imports have replaced stocks sold to Venezuela.

Every other July (odd years) the Colombian international livestock show "AGROEXPO" is held in Bogota. This is one of the most important shows of its kind in Latin America. Companies and associations interested in promoting American dairy genetics, machinery and other products should consider participating in AGROEXPO. The next event will be held in 2003.

2. Import Requirements

Milk imports from countries outside of the Andean Community, the United States included, are subject to a 20 percent duty, plus an additional import tax under the Andean Community's price band and reference price system. Price bands exist for eight basic commodities, along with many related or substitute products. The "bands" are the parameters which determine whether additional import taxes are applied to imported products. The price band for powdered milk (whole or NFDM) consists of ceiling and floor prices, which are calculated on the basis of a five-year price average for New Zealand powdered whole milk without added sugar, adjusted to a CIF basis. Floor and ceiling prices are revised every April. The Andean Community also issues a reference price, which is adjusted every two weeks. If the reference price falls below the floor

price band, an additional import surcharge is added to the 20 percent duty. If the reference price falls within the floor and ceiling bands, only the 20 percent duty is applied. If the reference price is above the ceiling band, the 20 percent duty is reduced.

For the second half of October 2001, the reference, floor and ceiling prices for powdered milk was set at US\$1,561, \$2,281, and \$2,092 per metric ton, respectively. The variable duty for powdered milk was fixed at 61 percent of the reference price or \$952.21 per ton.

This year the reference price was changed from the New Zealand price of \$2,130 per ton to an European average of \$1,798 in February. This increased the duty from 20 percent to 40 percent. Later, on June 26, the GOC returned to the New Zealand market price, which at that time was as low as the European average, reducing the reference price to \$1,595 per ton and raising the total duty to 57 percent.

3. Import Registration and Product Labeling

Product Registration: All retail food items, including products imported in bulk for repackaging for retail sale without further processing, must be registered and approved by the National Institute for the Surveillance of Food and Medicine (INVIMA) of the Ministry of Health. Imported powdered milk, which is retailed in original containers or repackaged here in Colombia and resold to the public in local supermarkets, must be registered. However, imported powdered milk, which is used by processors for reconstitution into fluid milk or for the production of other products, is not subject to this registration process. This registration, once obtained by the Colombian importer, is valid for all import shipments of the registered product during a ten-year period.

INVIMA registration requires a written document from the manufacturer stating that it is the manufacturer of the product. Also needed is a “certificate of free sale” stating that the product is approved for human consumption in the United States. This certificate needs to be issued by a government (state, local, or federal) health authority. A description of the manufacturing process and a list of ingredients specifying additives, preservatives, and coloring agents, is also required. In addition, the Colombian importer must register his company with MINCOMEX, the Ministry of Foreign Trade. This grants Government of Colombia authorization for this company to import all food products.

Labeling: Colombian regulations do not require that imported food products have labels in Spanish. In practice, most imported U.S. food products sold in Colombia enter with the same labels carried in the United States. The Ministry of Health requires that all imported food items that do not have a Spanish label, have a sticker affixed to the product, which specifies in Spanish the product name, INVIMA registration number, recommended method of storage of product, and product expiration date. In practice, powdered milk imports that are destined for further processing, including reconstitution into fluid milk, are not subject to the above labeling requirements. However, if bulk shipments of powdered milk are destined for repackaging and resale in Colombian retail stores, this product is subject to the GOC’s labeling requirements. In this situation, retail packages of powdered milk carry the label of local repackagers and are required to provide details on the contents but are not required to specify content origin. The

above labeling requirements would apply in full for powdered milk imports, as well as other dairy product imports that enter in consumer-ready packages. INVIMA may test or analyze imported powdered milk at the port of entry or after entering the Colombian marketing system at the expense of the importer.

Tables

Colombia: Dairy, Dry Whole Milk Powder PSD, 2001-2003 (1,000 Metric Tons)

PSD Table						
Country	Colombia					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	2	4	4	11	4	13
Production	59	63	61	65	0	70
Intra EC Imports	0	0	0	0	0	0
Other Imports	14	16	14	14	0	14
TOTAL Imports	14	16	14	14	0	14
TOTAL SUPPLY	75	83	79	90	4	97
Intra EC Exports	0	0	0	0	0	0
Other Exports	15	17	17	18	0	19
TOTAL Exports	15	17	17	18	0	19
Human Dom. Consumption	56	55	58	59	0	63
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	56	55	58	59	0	63
TOTAL Use	71	72	75	77	0	82
Ending Stocks	4	11	4	13	0	15
TOTAL DISTRIBUTION	75	83	79	90	0	97
Calendar Yr. Imp. from U.S.	2	0	2	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Colombia: Dairy, Milk, Nonfat Dry PSD, 2001-2003 (1,000 Metric Tons)

PSD Table						
Country	Colombia					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	1	1	1	1	1	1
Production	4	5	5	5	0	5
Intra EC Imports	0	0	0	0	0	0
Other Imports	5	4	5	5	0	5
TOTAL Imports	5	4	5	5	0	5
TOTAL SUPPLY	10	10	11	11	1	11
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	1	0	1
TOTAL Exports	0	0	0	1	0	1
Human Dom. Consumption	9	9	10	9	0	9
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9	9	10	9	0	9
TOTAL Use	9	9	10	10	0	10
Ending Stocks	1	1	1	1	0	1
TOTAL DISTRIBUTION	10	10	11	11	0	11
Calendar Yr. Imp. from U.S.	1	1	1	1	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Colombia: Powdered Milk Exports, 2001 (Metric Tons)

Export Trade Matrix			
Country	Colombia		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan - Dec	Units:	MT
Exports for:	2001		2002
U.S.	3	U.S.	
Others		Others	
Venezuela	16715		
Ecuador	429		
Peru	311		
Panama	32		
Total for Others	17487		0
Others not Listed	0		
Grand Total	17490		0

Source: DANE (National Statistics Bureau)

Colombia: Powdered Milk Imports, 2001 (Metric Tons)

Import Trade Matrix			
Country	Colombia		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Dec	Units:	MT
Imports for:	2001		2002
U.S.	144	U.S.	
Others		Others	
Uruguay	4850		
Argentina	4247		
New Zealand	3147		
Chile	1725		
Spain	594		
Bolivia	518		
Brasil	210		
Ukraine	210		
Venezuela	116		
Total for Others	15617		0
Others not Listed	226		
Grand Total	15987		0

Source: DANE (National Statistics Bureau)

Colombia: Powdered Milk Retail Prices 2001-2002 (Col Pesos per Kilogram)

Prices Table			
Country	Colombia		
Commodity	Dairy, Dry Whole Milk Powder		
Prices in	Col pesos	per uom	Kilo
Year	2001	2002	% Change
Jan	8642	9670	11.90%
Feb	8473	9613	13.45%
Mar	8723	9647	10.59%
Apr	9214	9702	5.30%
May	9404	9950	5.81%
Jun	9483	9720	2.50%
Jul	9886	9880	-0.06%
Aug	11040	9910	-10.24%
Sep	10081	9980	-1.00%
Oct	9977		-100.00%
Nov	10068		-100.00%
Dec	9867		-100.00%
Exchange Rate	10/21/2002	Local currency/US \$	2,830